United States Department of the Interior

OFFICE OF INSPECTOR GENERAL
Washington, DC 20240

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Memorandum

To: Secretary Salazar

From: Mary L. Kendall
Acting Inspector General

Subject: Inspector General's Statement Summarizing the Major Management and Performance Challenges Facing the Department of the Interior

In accordance with the Reports Consolidation Act of 2000, we are submitting what we have determined to be the most significant management and performance challenges facing the Department of the Interior (Department). The challenges listed are for inclusion in the Department's Performance and Accountability Report for fiscal year 2009. They reflect what the Office of Inspector General considers significant impediments to the Department's efforts to promote economy, efficiency, and effectiveness in its bureaus' management and operations.

The top challenges are:

- Financial Management
- Information Technology Security
- Health, Safety, and Maintenance
- Responsibility to Indians and Insular Areas
- Resource Protection and Restoration
- Revenue Collections
- Acquisition Management

These issues are important to the Department's mission, involve large expenditures, require significant management improvements, or involve significant fiduciary relationships. We believe the Department could enhance and improve its overall operational effectiveness and efficiency by developing strategies to identify and correct deficiencies, especially in activities that cut across bureau and program lines.

Attachment

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Office of Inspector General Update of the Top Management Challenges for the Department of the Interior

1. Financial Management

The Department of the Interior (Department) manages an annual appropriation of $16.7 billion, revenues of $12 to $24 billion annually from onshore and offshore mineral leases, and $3.3 billion in funds held in trust. By contract, the independent public accounting firm KPMG LLP completes the annual financial audit of the Department. KPMG rendered an unqualified opinion on the consolidated financial statements of the Department for fiscal years (FYs) 2007 and 2008, although the Department still had 205 audit findings, 6 of which were classified as significant deficiencies in internal controls over financial reporting. One of the six, an understatement of budgetary resources by over $457 million, was considered a material weakness. In addition, KPMG identified two instances in which the Department did not comply with laws and regulations, specifically the Single Audit Act Amendments of 1996 and the Federal Financial Management Improvement Act of 1996.

The implementation of the Financial and Business Management System (FBMS) continues to be a management challenge for the Department. The number and variety of programs across the Department make budget and performance integration particularly difficult.

The number of audit findings related to FBMS continues to increase. One of the FY 2009 findings relates to the implementation of FBMS at the Bureau of Land Management (BLM), the largest bureau to implement the System. Due to the implementation of FBMS, the transactions entered into BLM's Collection and Billing System were not interfacing with the general ledger for the first six months of the year. In addition, once the systems began to interface, BLM did not perform reconciliation between the two systems. Due to these problems, KPMG's interim testing of revenue was delayed for about a month.

THE DEPARTMENT OF THE INTERIOR RESPONSE TO MAJOR MANAGEMENT CHALLENGE NO. 1

The Department of the Interior (DOI) is committed to enhanced financial management along with prompt development and implementation of suitable corrective actions to address audit recommendations with which management concurs. Actions taken in 2009 strengthened compliance with the Single Audit Act and the Federal Financial Management Improvement Act through the issuance of new Departmental guidance, increased Departmental oversight over bureau monitoring of single audit report recommendations, and the Bureau of Reclamation's implementation of a new single audit tracking system.

Audit Findings and Internal Controls: Interior uses a risk-based method to rate audit recommendations for significance, materiality, or severity in order to direct attention and resources first to those with greatest need. Interior is continuing efforts to improve the tracking of audits, reviews and evaluations and the resultant recommendations and findings in concert with the Office of Inspector General.

The Department has taken action to correct the material weakness identified in 2008 and has improved controls and procedures to ensure a standard and consistent accounting treatment for customer orders.

Financial and Business Management System (FBMS): FBMS is a key component of the Department's financial management modernization strategy. Deployment of the System will significantly advance our objectives of standardizing data, business practices, and related technology; integrating budget and performance; replacing currently fragmented processes with more effective and efficient processes; and improving the responsiveness to internal and external customers. The System holds great promise by replacing aging legacy systems with an enterprise solution; over 26 legacy systems and subsystems have been decommissioned to-date.

Interior plans to have the System operating in all bureaus and offices in 2014. This presumes that

Interior is successful in securing the budget levels requested for the System. The delays in funding due to continuing resolutions and the resultant schedule changes have been a significant risk to the System. The internal control review regarding FBMS was successfully completed in FY 2009, with no material weakness identified.

Interior is focusing on improving the Bureau of Land Management's (BLM) System operations and examining the lessons learned from the BLM deployment. This will ensure that next year's audit does not experience the delays encountered this year. DOI's multi-disciplinary team, working closely with BLM, resolved many issues during FY 2009 and developed corrective action plans to address the remaining challenges with the interface between the Collection and Billing System (CBS) and FBMS. In FY 2010, Interior will implement a tool to track monthly CBS and other reconciliations.

2. Information Technology Security

The Department's annual budget for information technology (IT) is approximately $1 billion, which funds a significant existing infrastructure of networks, hardware, and software programs. The Department's systems and data are used to manage its business processes, provide the public information on national parks, grazing rights permits, and royalty collections, among other things; and to monitor wildland fires, earthquakes, tsunamis, and volcanic activity.

The Department continues to employ a decentralized and fragmented IT governance structure that fails to comply fully with legislation and federal policy.

Bureau and office resistance to Departmental guidance and weak Departmental oversight have left the Department struggling to meet information security and privacy mandates. The inadequate oversight does not result from a lack of technology — oversight is inadequate even when appropriate technology exists. For example, we found that the Department failed to perform adequate information security inspections throughout the entire fiscal year.

Although the Department continues to provide additional resources for information security, mandatory federal guidance goes unimplemented. The Federal Information Security Management Act of 2002 (FISMA) requires the Secretary of the Interior to delegate to the Department Chief Information Officer (CIO) "the authority to ensure compliance with the requirements imposed on the agency under this subchapter." However, we routinely found guidance issued by the Department CIO was not implemented.

In May 2005, the Department CIO directed all bureaus and offices to transition their network management to the Department by December 31, 2005. Furthermore, in November 2006, the Department CIO directed that the Department procure all network services and equipment. In FY 2009, however, we found hundreds of network circuits still operating outside the purview of the Department.

In August 2006, the Department CIO directed all bureaus and offices to transition to the Department's remote access system by January 31, 2007. However, in FY 2009, we found many bureaus still operating their own, separate, remote access systems.

Further, our evaluations showed that the Department has not uniformly implemented security controls to protect its networks and data. Many chief information security officers fail to meet minimum qualifications, as defined by Departmental policy, and many personnel remain under-qualified.

FISMA requires the Department's CIO to "oversee personnel with significant responsibilities for information security." In FY 2008, we warned that "the Department has seemingly delegated performance of significant information security duties to personnel who are likely ill-prepared to perform the task." In FY 2009, we again found numerous examples of unqualified people performing significant information security duties.

During 2009, we reviewed progress in implementing recommendations we made in 2007 to improve information security. Our reviews revealed that bureaus and offices had exaggerated many of the progress updates they provided to the Department. Moreover, we found the Department did not verify the bureau and office claims of progress or resolution. Further, BLM and the United States Geological Survey (USGS) have made little progress, while the National Business Center has made good progress in this regard. In all, nearly one-third of our FY 2007 recommendations remain unresolved. Neither the Department nor bureaus offered an explanation for not addressing the unresolved recommendations.

THE DEPARTMENT OF THE INTERIOR RESPONSE TO MAJOR MANAGEMENT CHALLENGE NO. 2

Interior continues to be firmly committed to information security and compliance with the Federal Information Security Management Act (FISMA) of 2002. While additional efforts to improve information security and its management are necessary, the Department made significant progress in FY 2009 to improve and strengthen its overall security posture, including the following actions:

- The Department's Information Technology (IT) Security Team created a prioritized plan of approximately 40 recommendations identified as major risks to the Department's information and information systems, which led to the following actions:
  - The Department has implemented a Secure Domain Name Service and is coordinating actions for its utilization by bureaus and offices. The completion of this project is scheduled to meet the Office of Management and Budget (OMB) directed deadline of December 31, 2009
  - The Department has reduced the number of network connections required by the Trusted Internet Connection mandate. There are currently fewer then 200 connections, down from 1,359. Work continues in this effort.
  - Software has been acquired for the Data Loss Prevention Program. It is now being installed at all of the Department's five Internet gateways.
  - A solution provider has been selected for the OMB Data at Rest mandate. Procurement is complete and implementation is scheduled to occur by the end of this year.
- The IT Security Policy Handbook was promulgated. It aligns Departmental policies with the National Institute of Standards and Technology Special Publication 800-53 family of controls. In addition, the handbook has established certification and training requirements for information security professionals and bureaus/offices are establishing Plans of Action and Milestones (POA&M) to ensure all the appropriate employees meet the handbook requirements. An updated handbook is scheduled for release by year-end.
- The Cyber Security Assessment and Management solution provided by the Department of Justice, a Shared Services Center provider under the OMB's Information Systems Security Line of Business, continues to be updated to improve and add new functionality. The Department is taking full advantage of this solution to centrally manage bureau/office POA&Ms, certification and accreditation activities, and Federal Information Security Management Act (FISMA) required periodic assessment of information system security controls. The degree of FISMA compliance has increased, and will continue to do so, as the application becomes more stable and users become more familiar with this tool.
- Progress continues in improving the implementation of the OMB mandated Federal Desktop Core Configuration standard. The Office of Inspector General, in last year's FISMA report, reported the Department as being 0 – 50 percent compliant with this standard. The OIG's most recent review showed 68 percent compliance.

3. Health, Safety, and Maintenance

Each year, over 500 million people visit the Department's national parks and monuments, wildlife refuges, and recreational sites. The Department is responsible to serve these visitors and to maintain and protect thousands of facilities and millions of acres of property. In some cases, the isolation of some Department lands and facilities presents unique vulnerabilities and makes safety and maintenance challenging. Our work has documented decades of maintenance, health, and safety issues that place the Department's employees and the public at risk.

We issued a flash report this year discussing U.S. Fish and Wildlife Service (FWS) use of eight Department-owned aircraft. For over a decade, the Department has allowed these aircraft to be flown over maximum takeoff gross weight according to Federal Aviation Administration regulations and manufacturer specifications. FWS has acknowledged the risks, and has taken steps to begin to purchase new replacement aircraft.

The Department is responsible for roads, bridges, schools, office buildings, irrigation systems, and reservoirs. Repair and maintenance of some of these have long been postponed due to budgetary constraints. The Department's FY 2009 estimate to correct deferred maintenance, the Department's term for unfunded repair and maintenance needs, ranges from $13.4 billion to $19.7 billion. Deterioration of the assets due to uncorrected deferred maintenance poses health and safety hazards.

In addition, land managed by the Department has posed hazards to the public. Many abandoned mines, primarily in western states, pose dangerous safety and environmental hazards. Growth of the population and use of off-road vehicles in the West require a workable approach to mitigate numerous public threats posed by abandoned mines. Last year, the Office of Inspector General (OIG) reported grave concerns to the Department regarding its failure to act to mitigate the hazards posed by abandoned mines on federal lands. As stated in our July 2008 report, "Mines located primarily in the Western States of California, Arizona, and Nevada have dangerously dilapidated structures, serious environmental hazards, and gaping cavities — some capable of swallowing an entire vehicle." Our recent report on Mining Claimant Administration addressed how BLM might be more effective in working with claim holders or claimants to mitigate the most serious physical safety hazards. BLM is missing opportunities to enhance public safety by neither coordinating with claimants nor actively seeking claimant assistance in mitigating the hazards.

THE DEPARTMENT OF THE INTERIOR RESPONSE TO MAJOR MANAGEMENT CHALLENGE NO. 3

Interior is committed to ensuring the health and safety of employees, volunteers, and visitors to all of Interior's national parks, wildlife refuges, recreational sites, and other public lands and facilities. Bureaus and offices worked collaboratively with the Department to examine health and safety programs and identified and implemented improvements that are responsive to the recommendations made in the OIG's audit of facility health and safety. For example, the Department developed a set of risk assessment codes and a risk assessment system to improve attention to high-risk health and safety problems. In FY 2010 the Department is requiring that bureaus/offices submit an assurance statement attesting to the materiality of health and safety issues. By FY 2011 the risk assessment system and coding structure will be fully implemented.

A result of the audit and follow-on actions is greater coordination and collaboration across the disciplines that are engaged in the oversight and management of health and safety issues. The Designated Agency Safety and Health Officer Council, the Safety and Occupational Health Council, and the Asset Management Team are working closely to reduce health and safety risks.

Aircraft Flash Report: In response to the OIG flash report on the use of eight Department-owned aircraft, Interior carefully considered the aircraft manufacturers' engineering data and Interior's mission requirements. As a result, the Department designed and implemented carefully controlled operating criteria that allowed the U.S. Fish and Wildlife Service (FWS) to operate the aircraft above the FAA certified weight limit, but within acceptable safety margins. Interior has implemented the recommendations of the OIG relative to expanded training, inspections, and monitoring of these aircraft. FWS initiated an aircraft replacement program in 2005, and all new aircraft should be delivered before the current waiver expires in 2010.

Repair and Maintenance: The Department is committed to addressing deferred maintenance with a focus on projects that have health and safety components. All DOI bureaus comply with the Department's annual Exhibit G instructions to budget for and allocate funding for highest priority deferred maintenance needs. These instructions provide a set of uniform criteria and ranking that prioritize remediation of health and safety issues. In addition, DOI bureaus have established condition assessment systems in which all facilities are assessed every four to five years to identify deficiencies, record them into a computerized maintenance management system, and prioritize the mitigation effort based on the severity of the finding. In addition, the infusion of funding through the American Recovery and Reinvestment Act of 2009 (ARRA) has allowed DOI to expedite resolution of deferred maintenance issues and enable completion of some projects that would not have otherwise been addressed in a timely fashion.

Abandoned Mines: With respect to the Abandoned Mine Land (AML) program, BLM remains dedicated to mitigating the public threats caused by past mining on public lands across the western United States. BLM maintains its partnerships with the state AML agencies in order to leverage funding for improved inventory initiatives and the closures of open mine shafts and adits. BLM is installing temporary fences and signs prohibiting entry and warning of the health and safety dangers as an intermediary step pending environmental analysis and final resolution. BLM has expanded its efforts to survey sites with environmental and physical hazards in order to prioritize them for mitigation. The BLM budget was increased in 2009 by $7.5 million for this program and is focusing on the highest priority sites.

In regards to the Mining Claimant Administration report, BLM has taken a proactive approach by increasing collaborative efforts with claimants through the use of the "Fix a Shaft Today" campaign and is developing policy that will enhance mitigation of abandoned mine safety hazards on active mining claims. BLM has encouraged state offices to implement cooperative agreements with their respective state agencies to coordinate mitigation of abandoned mine land hazards.

4. Responsibility to Indians and Insular Areas

Management problems persist in programs for Indians and island communities. The Department manages relationships with 562 federally recognized Indian tribes (1.6 million American Indian members), has trust responsibilities for 52.7 million acres of land belonging to Indian tribes and individuals, and provides education services to approximately 46,000 Indian children in 184 schools and dormitories. The Department also has various responsibilities to seven island communities — four territories and three sovereign island nations.

Responsibility to American Indians has consistently been a top management challenge for the Department. Major Indian Country programs managed by the Department include Indian Trust for Lands and Funds; Indian Education; Self-Determination; Energy and Economic Development; Indian Gaming; and Justice Services. Approximately 30 percent of OIG investigations involve Indian Country issues.

The myriad problems we have uncovered portray programs that are sorely understaffed, underfunded, and poorly managed. OIG has identified gross program inefficiencies along with criminal conduct at many levels of Indian Affairs. The greatest obstacle to reform, however, is the leadership vacuum that has existed for almost a decade. Assistant Secretaries have typically served for only 6 to 18 months, which has resulted in constantly shifting priorities and messages to Bureau employees and the American Indians they serve.

In terms of the Insular Areas, the Department seeks to increase federal responsiveness to their unique needs through the Office of Insular Affairs (OIA). OIA works to improve the financial management practices of Insular Area governments and to increase economic development opportunities through financial and technical assistance. The budget for Insular Areas includes over $300 million in payments to the Republic of Palau, the Federated States of Micronesia, and the Republic of the Marshall Islands, as well as an additional $113 million in payments to the Territories of Guam and the U.S. Virgin Islands. Overall, OIA annually funds Insular Area government programs focusing on education, health care, infrastructure improvement, public sector capacity building, private sector development, and the environment.

Unfortunately, the people of the Insular Areas are ill-served by their local governments and the OIA. Over a number of years, our reviews have consistently pointed to problems that might have been mitigated had OIA provided adequate oversight or taken a more active approach in assisting Insular Area governments. Numerous reviews have pointed to ongoing management and financial problems in the Insular Areas and OIA. We identified problems in the areas of grants management, water and wastewater systems, noncompetitive procurements, tax collection, and property accountability and management. In fact, in FY 2008, our review of island-wide health care concluded that health care issues were at the crossroads of a total breakdown.

As a result, we are currently evaluating OIA program management to determine if OIA is able to effectively assist the Insular Area governments in gaining economic self-sufficiency and improving quality of life for their people. Initial results suggest that OIA has been ineffective in achieving positive outcomes from federal grants provided to the Insular Areas; a lack of mission clarity has hampered OIA performance.

THE DEPARTMENT OF THE INTERIOR RESPONSE TO MAJOR MANAGEMENT CHALLENGE NO. 4

The Department continues to demonstrate its long-standing commitment to fulfilling its responsibilities to American Indians and island communities. The Department acknowledges that continued focus and improvements of management processes and controls are necessary.

Responsibility to Indians: The Assistant Secretary – Indian Affairs stated in his confirmation hearing that he would consent to a four year commitment. This commitment will eliminate the past leadership vacuum and ensure continuity, which will promote the establishment of consistent priorities within Indian Affairs (IA). IA has renewed its commitment to improving the safety of Indian communities, continuing in the 2010 budget a focus on law enforcement, social programs, and safety-related construction. To date, increases of $50.8 million have been appropriated for the Public Safety and Justice programs and the 2010 budget request includes an additional $30 million.

To assist in mitigating safety and health deficiencies in FY 2009, Indian Affairs continued conducting internal control reviews for program compliance as well as assessment and evaluation inspections. IA took action to close jails and detention centers in order to protect employees and detainees. Funding provided through ARRA funding of $500 million is focusing on advancing goals for improved health and safety including On the Job Workforce Training, Construction Minor Improvement and Repair, school replacement, housing improvement, road maintenance, and detention center maintenance and repair. Indian Affairs has adopted Interior's prescribed methodology of addressing health and safety issues using a risk based analysis to ensure accuracy and transparency of the funds.

Responsibility to Insular Areas: The Department's Office of Insular Affairs (OIA), within its current authorities and resources, is assisting the island governments to improve critical services, develop private industry, and improve financial management and accountability over the use of public funds and the administration of Federal grant programs. OIA receives approximately $35 million annually (including $27 million expressly for capital improvement projects) for direct grants to assist 10 insular governments in addressing the needs of their respective public and islands. OIA's FY 2010 budget request includes a $200,000 program increase to hire additional personnel needed to address audit concerns and expand technical assistance, training, and oversight activities, both in the Territories and Freely associated States. Assistance provided by OIA is determined in consideration with the priorities of insular leadership, Departmental policy, and Federal and independent reviews. The use of Compact of Free Association funds is determined by bilateral joint economic committees composed of U.S. and freely associated state governments in accordance with Compact Agreements. Other funds, such as Guam Section 30 advance and the U.S. Virgin Islands rum excise tax advance, are by law not available for OIA to unilaterally mandate.

OIA has directed its limited financial and manpower resources to provide palpable improvements in the Insular Areas including improved roads and facilities, significant increases in the quality of potable water, and more efficient waste disposal. OIA also directed its assistance to promote stronger private partnerships by linking insular personnel with business people in the 50 states and around the world. Through conferences and an on-line business networking tool (Island Business Link), OIA has helped to spearhead private investment discussions in all of the Insular Areas. To help maximize the impact of OIA's current level of assistance and to implement a recommendation made by the Government Accountability Office (GAO), OIA increased its coordination with other Federal agencies resulting in improved communication and the pooling of resources for common objectives. OIA has combined available resources with the Department of Health and Human Services (HHS), the Internal Revenue Service, Department of Homeland Security, Department of Energy and the Interior's OIG to provide training and technical recommendations to insular personnel and for purchases of needed equipment and supplies. Most recently, OIA strengthened its coordination with the IRS to address operational issues of the insular tax offices, and OIA is coordinating with HHS, U.S. Department of Veterans Affairs and the Department of Defense to address insular health care issues.

5. Resource Protection and Restoration

The Department's resource managers face the challenging task of balancing competing interests for the use and protection of the Nation's natural resources. The Department manages one-fifth of the land of the United States, including 391 national park units and 548 wildlife refuges. BLM is the Nation's largest land manager with responsibility for 258 million acres of land across the West, as well as a 700-million-acre onshore, subsurface mineral estate.

Experts generally view collaborative resource management that involves public and private stakeholders in natural resource decisions as an effective approach for managing natural resources. Several benefits can result from using collaborative resource management, including reduced conflict and litigation and improved natural resource conditions, according to the experts. The Government Accountability Office (GAO) reported that federal land and resource management agencies – BLM, FWS, National Park Service, and the Department of Agriculture's U. S. Forest Service – face key challenges to participating in collaborative resource management efforts. For example, the agencies face challenges in determining whether to participate in a collaborative effort, measuring participation and monitoring results, and sharing agency and group experiences. As a part of the interagency Cooperative Conservation initiative led by the Council on Environmental Quality, the federal government has made progress in addressing these challenges. Yet, additional opportunities exist to develop and disseminate tools, examples, and guidance that further address the challenges, as well as to better structure and direct the initiative to achieve the vision of Cooperative Conservation, which involves a number of actions by multiple agencies over the long term. Failure to pursue such opportunities and to create a long-term plan to achieve the vision may limit the effectiveness of the federal government's initiative and collaborative efforts.

Interior's ability to mitigate the threat of wildfire and its associated costs is of concern. The Department recently transferred the management of wildland fires from BLM to the Department Office of Wildland Fire Coordination in an effort to focus attention on controlling the threat of wildland fires and its escalating costs; congressional interest is at an all time high. As recently as March 2009, the GAO stated that wildfire problems facing the Nation continue to grow. GAO repeated its recommendations addressed to the Department and other fire management agencies to 1) develop a cohesive strategy identifying options and associated funding to reduce potentially hazardous vegetation and address wildland fire problems; 2) establish clear goals and a strategy to help contain wildland fire costs; 3) continue to improve their processes for allocation fuel reduction funds and selection fuel reduction projects; and 4) take steps to improve its use of a new interagency budgeting and planning tool.

THE DEPARTMENT OF THE INTERIOR RESPONSE TO MAJOR MANAGEMENT CHALLENGE NO. 5

The Department of the Interior recognizes the value of collaborative natural resource management in concert with the principles set forth in President Obama's January 21, 2009, memorandum on transparency and open government. The Department's ability to encourage public participation and improve collaboration across all levels of Government and with nonprofit organizations, businesses, and individuals in the private sector will be increasingly important as the Department tackles challenges such as climate change and the development of renewable energy resources.

Partnerships: The Department continues to implement partnership policies and collaborative practices by providing tools and training that build knowledge and capacity for managing cross-jurisdictional partnerships, reducing conflict, and recognizing opportunities to engage in collaborative approaches to conservation and resource management. These actions respond to recommendations in the February 2008, GAO report, *Natural Resource Management: Opportunities Exist to Enhance Federal Participation in Collaborative Efforts to Reduce Conflict and Improve Natural Resource Conditions,* (Report No. GAO-08-262). In January 2009, the Department signed a Memorandum of Understanding with the Departments of Agriculture, Commerce, Defense, and the Environmental Protection Agency along with the Council on Environmental Quality to enhance interagency cooperation as recommended by GAO. The Department also actively participates in an interagency forum on Environmental Conflict Resolution and Collaborative Problem-Solving led by the Council on Environmental Quality, OMB and the U.S. Institute for Environmental Conflict Resolution.

Wildland Fire: The Department is using a partnership approach with the U.S. Forest Service (USFS), states and local communities to mitigate the threat of wildfire and to balance cost with the associated risk. Decision support tools, such as LANDFIRE, Fire Program Analysis (FPA), and Ecosystem Management Decision Support are being used to develop a comprehensive fire management "Cohesive Strategy," consistent with recent GAO recommendations. This strategy is expected to be completed by the end of 2011 and will engage our Tribal, state, and local government, partners and other major stakeholders.

The Department has established goals to help contain wildfire suppression costs employing a risk-based approach that matches suppression effort with the potential threat to human values; the Wildland Fire Decision Support System has been deployed to streamline and improve decision-making processes on wildfires, and provide accountability and oversight through interagency large fire cost reviews. The Department continues to enhance the risk informed hazardous fuels allocation process that has been used over the past three years to allocate hazardous fuels funding to the highest priority areas. Finally, Interior and USFS are implementing a newly developed planning and budgeting tool (FPA) that will allow systematic evaluation of alternative investment strategies and identify options that best reduce fire losses, improve ecological conditions, and increase cost efficiency.

6. Revenue Collections

The Department has jurisdiction over 1.76 billion acres of the Outer Continental Shelf, manages about one-fifth of the land area of the United States, and administers 700 million acres of subsurface minerals throughout the Nation. Almost one-third of the Nation's domestic energy production is generated from Department managed lands and waters. The Minerals Management Service (MMS) is responsible for administering leases and managing the majority of royalties, collecting approximately $10.9 billion in 2007 and $23.4 billion in 2008. Royalties include monetary (Royalty-in-Value - RIV) and product (Royalty-in-Kind - RIK) payments. Our work has revealed weaknesses in the oversight and collection and management of royalties.

In regard to the management of the Royalty Program, MMS has begun to correct their weaknesses; however, more needs to be done. For example:

- ✓ A system needs to be established allowing MMS, BLM, and the Bureau of Indian Affairs to communicate efficiently and effectively regarding oil and gas leases and royalty collections.

✓ Attention should continue to be placed on royalty collection methods and procedures. Transparency and standardization should become the norm. Decision making authority on exceptions to payments and interest should have credible oversight independent of the royalty collection staff.

During the summer of 2008, crude oil prices were at an all time high and industry was requesting additional leasing be available on Federal lands. Yet, the Department reported most existing leases were non-producing. Congress was considering legislation requiring companies to bring their Federal leases into production before acquiring new leases. We performed an evaluation of non-producing Federal leases and reported that the Department could do more to track the status of non-producing leases and coordinate the reporting of reliable lease data between the bureaus. We concluded that successful development of a lease was uncertain due to various factors, such as geological uncertainties, regulatory restrictions, and public opposition. Both industry and bureau officials cautioned that a mandate to drill on all Federal leases would not necessarily enhance production but might actually reduce industry interest in Federal leases.

The Department faces, and must identify, growth opportunities as it manages the public's vast royalty and energy resources. The vision behind the Recovery Act is to double this Nation's supply of renewable energy over the next three years, and make an enormous investment in basic research funding for new discoveries in energy. As the Department moves forward, it must anticipate a shift from the oil and gas focus to these energy alternatives. If the Department is to commit to explore and execute a myriad of projects such as wind energy and offshore wave energy through MMS, as well as geothermal, solar, oil shale, and wind energy projects onshore through BLM, it must plan for and shift limited resources to meet this demand.

THE DEPARTMENT OF THE INTERIOR RESPONSE TO MAJOR MANAGEMENT CHALLENGE NO. 6

The Department recognizes that efficient and effective revenue collections are integral to both the Department's rapidly developing renewable energy program and the existing mineral leasing program.

Royalty Management: The Secretary's management team is evaluating a comprehensive royalty management reform package. On September 16, 2009, the Secretary announced to the House Committee on Natural Resources that he was ordering the termination of the Minerals Management Service (MMS) royalty-in-kind program and an orderly transition over time to a more transparent and accountable royalty collection program. The Department will continue to ensure that the American public realizes fair market value for the minerals and energy produced on Federal and Indian lands.

Communication: The Department is strengthening the collaboration, communication, and coordination among MMS, BLM, Office of the Special Trustee for American Indians, and IA under the leadership of the Assistant Secretary – Land and Minerals and the Assistant Secretary – Indian Affairs. The bureaus are working together to improve the seamless electronic transfer of data between bureau systems, which will reduce errors from manual data entry and improve the reliability of data. The Department's Production Coordination Committee meets regularly to ensure ongoing MMS, BLM, and the Office of the Assistant Secretary-Indian Affairs coordination and collaboration regarding mineral production and royalty issues.

Royalty Collection: Interior recognizes the importance of improving royalty collection methods and procedures. The MMS has several efforts underway to improve the accuracy of the payor-reported data used to collect and verify royalties. In addition, MMS has initiated a data mining effort as a second level screening process to increase the accuracy of payor-reported data before the data is subjected to compliance reviews and ultimately to audit. In recognition of the need for strengthened oversight, the 2010 budget includes increases of $8.4 million for audit and compliance efforts in MMS. BLM, and IA.

Oversight: The Secretary's leadership team is taking a strategic approach in considering options to oversee the administrative reforms in onshore and offshore leasing and revenue management and to recommend and implement policies related to domestic energy production—both conventional and renewable—from Federal and Indian lands that will result in responsible production while not jeopardizing production levels.

The Department is evaluating the issue of non-producing leases and lease management, in order to set policies to encourage companies to move expeditiously during their primary lease terms to explore for oil and gas resources. This will allow tracts/parcels to be reoffered to companies that are prepared to explore and bring economic resources to production. The MMS has reviewed current regulations that allow suspensions of operations (lease extensions) prior to undertaking certain specialized forms of exploratory drilling and will initiate a rulemaking to eliminate these lease extension options. In addition, MMS recently established escalating rentals to increase the cost of holding non-producing leases to the end of the primary term. The BLM is performing quarterly evaluations of oil and gas leases to determine the percentage that have production, have had some type of exploration activity, and those not in producing status. BLM is modifying its reports and internal directives to discontinue the "producible leases" terminology and to report leases with actual or allocated production as "producing leases" consistent with MMS reports.

Renewable Energy: The Department has seen successes in its Renewable Energy Program since the passage of the Energy Policy Act of 2005 and is committed to meeting the challenges presented in managing the public's vast royalty and energy resources. Highlights for renewable energy include issuing the final rule for renewable energy on the Outer Continental Shelf and establishing Federal/state task forces to work with individual states on proposed offshore wind activities. Onshore, BLM has established Renewable Energy Coordination Offices in California, Nevada, Wyoming, and Arizona, along with smaller renewable energy teams in New Mexico. In addition, BLM developed a bureau-wide programmatic Environmental Impact Statement to identify areas suitable for Solar Energy development on public lands. In anticipation of the need to focus on these areas, the 2010 budget increases support for environmental studies, National Environmental Policy Act analyses, program development and implementation, and a Multipurpose Marine Cadastre. As provided by the Energy Policy Act of 2005, BLM is using funding from royalties, rents, and bonus bids from geothermal leases to allow for additional development of geothermal resources on federal land and supporting U. S. Geological Survey research in support of geothermal development.

7. Acquisition Management

Procurement, contracts, and grants have historically been areas subject to fraud and waste government-wide; managing them is a continuing challenge. The Department procurement and financial assistance awards in fiscal year 2008 exceeded $5 billion, which represents over one-fourth of the Department's total budget. These awards were made by 10 different bureaus and offices and included $3.5 billion in contracts to over 19,000 contractors, and more than $1.7 billion in Federal assistance to over 2,300 recipients. In February 2009, Congress passed a $787 billion spending bill, the American Recovery and Reinvestment Act (Recovery Act or ARRA), to stimulate the economy by providing jobs and investing in the Nation's infrastructure, among other means. The Recovery Act provides nearly $3 billion to the Department. The funds, received by six bureaus, will be awarded under contracts and financial assistance agreements and will be spent on habitat restoration, facilities and roads improvements and construction, scientific equipment, water infrastructure in western states, and improving conditions in Indian country.

We dedicate significant resources to reviewing the adequacy of Departmental and bureau policies and procedures for acquisitions. Recent reports and advisories have identified numerous deficiencies. The four areas of repeated observations involve a lack of pre-solicitation planning, a lack of competition, selection of inappropriate contracting method and poor administration of contracts and grants.

To improve the procurement and financial assistance programs, Departmental leadership must emphasize compliance with Federal procurement and financial assistance policies. Training for contracting officers and grant managers is critical in developing the skills necessary to effectively manage pre-solicitation planning, competition, proper selection of the contracting method, and administration. There is also an urgent need to improve the suspension and debarment program, which excludes irresponsible contractors from receiving future awards. The Department has begun to make improvements in the program. They have established two positions and, based on OIG referrals, have taken suspension or debarment action on 8 separate referrals.

THE DEPARTMENT OF THE INTERIOR RESPONSE TO MAJOR MANAGEMENT CHALLENGE NO. 7

The Department is committed to the improvement of acquisition management and implementation of President Obama's goals for more effective acquisition practices and contracts that achieve results.

Recovery Act: The unique requirements of ARRA, such as expedited timeframes, large dollar values, and extensive reporting requirements, are posing challenges to the Interior's acquisition and financial assistance activities, while at the same time providing opportunities to focus on areas that can be improved. The Department has issued policies to communicate specific ARRA-mandated procedures, that standardize methods for carrying out ARRA contract and financial assistance actions and improve procurement operations by maximizing competition, ensuring the use of appropriate acquisition vehicles, and streamlining contracting procedures.

Department-wide policies have been issued that mandate the use of pre-award, award and post-award checklists for ARRA contracts, which will be adopted for general use for all contracting and financial assistance actions. These checklists provide an internal control mechanism to manage and mitigate risks. Proactive consultation with the Solicitor's Office is encouraged. The Department provided detailed training for acquisition and financial assistance professionals on the new requirements, which included modules for pre-award/ award/ post-award activities, acquisition review planning, risk management and reporting. The Department is also rewriting the *Department of the Interior Acquisition Regulation* to streamline acquisition procedures and implement initiatives maximizing competition and transparency of contract actions.

It is the policy of the Department that its acquisition workforce be trained and developed in accordance with the skill-based acquisition curriculum established by the Federal Acquisition Institute. As a result, Interior has adopted the education, training and experience requirements of the government-wide Federal Acquisition Certification programs for the Contracting and Contracting Officer's Technical Representative and has updated the criteria for certification of these positions in revised Departmental manuals.

The Department continues to make progress toward the establishment of a strong suspension and debarment program to protect against fraud, waste, abuse and the misuse of Federal funds. Two full time employees have been hired to process referrals for suspension and debarment actions, and cross-training among PAM staff will provide additional support in this area.

Reporting Details

The Improper Payments Information Act (IPIA) of 2002 is an initiative to identify programs susceptible to significant improper payments and reduce the amount and number of erroneous payments. The goal of this initiative is to improve the integrity of the government's payments and the efficiency of its programs and activities.

The IPIA requires Federal agencies to carry out a cost-effective program for identifying payment errors and recovering amounts overpaid. An improper (or erroneous) payment includes any payment that should not have been made or that was made in an incorrect amount under statutory, contractual, administrative, or other legally-applicable requirement. Incorrect amounts include overpayments; underpayments (including inappropriate denials of payment or service); any payment made to an ineligible recipient or for an ineligible service; duplicate payments; payments for services not received; and payments that do not account for credit for applicable discounts.

To implement IPIA, OMB requires agencies to review all programs (meeting OMB's definition of program) to determine the risk susceptibility of making improper payments and to perform more in-depth assessments for those programs meeting OMB's criteria for "significant erroneous payments." The threshold for significant erroneous payments is erroneous payments exceeding both 2.5% of program payments and $10 million annually. For all programs meeting the criteria, agencies are required to quantify the amount of erroneous payments using a statistically valid method with a 90% confidence level.

Summary of Risk Assessments and Payment Audits Performed During FY 2009

Based on a series of internal control review techniques, Interior determined that none of its programs is risk-susceptible for making significant improper payments at or above the threshold levels set by OMB. This review was conducted in addition to audits under the Single Audit Act Amendments of 1996, the CFO Act of 1990, GAO reviews, and reviews by Interior's OIG. Interior utilized different techniques to arrive at this determination: (1) risk assessments of internal controls related to payments for all programs performed as part of the assessment of internal control over financial reporting; and (2) prepayment and post-payment audits and recoveries.

Risk Assessments. Appendix C to OMB Circular A-123 states that annual risk assessments are required for all agency programs where the level of risk is unknown until the risk level is determined and baseline estimates are established. It also states that for agency programs deemed not risk-susceptible, risk assessments are required every three years unless the programs experience a significant change in legislation and/or significant increases in funding level. Programs experiencing significant changes must undergo a risk assessment during the next annual cycle.

Interior conducts annual risk assessments of programs susceptible to erroneous payments. The FY 2009 review of program outlays resulted in a low risk rating. The Department reported low error rates for improper payments for five consecutive years and continues to address this requirement.

FIGURE 3-1

FY 2009 Recovery Auditing Report
(dollars in thousands)

Interior	Amount Subject to Review for FY 2009 Reporting	Actual Amount Reviewed and Reported CY	Amount Identified for Recovery CY	Amount Recovered CY	Amount Identified for Recovery PYs	Amount Recovered PYs	Cumulative Amount Identified for Recovery (CY+PYs)	Cumulative Amount Recovered (CY+PYs)
TOTAL	$4,143,844	$4,143,844	$151	$192	$1,791	$1,642	$1,944	$1,830

KEY: CY Current Fiscal Year 2009
PYs Prior Fiscal Years 2005 - 2008

Prepayment Audit of Government Bills of Lading. Interior has been conducting prepayment audits of freight bills via GBL for a number of years. This effort is required by the Travel and Transportation Reform Act of 1998. Efforts continue with Interior's bureaus to ensure that all freight bills receive prepayment audits. Prepayment audit contractors identified $1.0 million in savings from the 2,594 GBLs reviewed with an audit base of $15 million; this amounts to approximately 6.62% in savings to the Government.

Recovery Audits. The Department requires that all bureaus have an audit recovery program in place. This program can be contracted out or "In House" practices and procedures applied. The audit base during FY 2009 for Interior was $4.1 billion through September 30, 2009. Figure 3-1 summarizes the results of the Department's recovery audit activities.

Since the percentage of erroneous payments is less than 1%, (.04% for FY 2009) the Department considers that there are adequate controls in place, including information systems and infrastructure, to minimize the occurrence of erroneous payments to vendors.

FY 2010 Planned Activities

During FY 2010, the Department will take the following actions to minimize the risk of improper payments:

- Continue using contractor assistance to perform prepayment audits of GBLs and recovery audits.
- Review bureau recovery audit reports to determine if any bureau experienced significant increases in improper payment percentages from FY 2009 and implement corrective action plans, as required.
- Review programs exceeding $100 million in annual outlays to determine if there have been any significant changes in legislation and/or significant increases in funding levels affecting these programs. These changes would precipitate a risk assessment of those programs for improper payments.
- Schedule programs for risk assessment in FY 2010 based on the FY 2009 annual review of changes to program risk assessment posture, as part of the Department's three-year risk assessment plan.
- Review and update Annual Risk Assessment guidance to incorporate improvements in conducting, reporting, and documenting the program to ensure compliance with A-123, Appendix C.

Special Account Funds

NPS has concession agreements which contain provisions that provide for the establishment of escrow type accounts to be used to develop, improve, and maintain visitor facilities. The concessioner periodically deposits a percentage of gross revenue in the account as provided in the concessioner agreement. These "special account" funds are maintained in separate interest-bearing bank accounts for the concessioners, are not assets of the NPS, and may not be used in NPS operations. Therefore, the balances, inflows, and outflows of these concessioner special accounts are not recognized in the consolidated financial statements of the NPS. The concessioners reported that these special accounts balances totaled approximately $33.4 million and $41.9 million (unaudited), as of September 30, 2009 and 2008, respectively.

Compliance with Other Key Legal and Regulatory Requirements

Interior is required to comply with several other legal and regulatory financial requirements, including the PPA and the DCIA.

Prompt Pay, Debt Collection, and Electronic Funds Transfer

The Department is continuing to improve performance under the requirements of the PPA and the DCIA. The PPA requires that eligible payments be made within 30 days of receipt of invoice; otherwise, the Federal Government is required to pay interest. The DCIA requires any nontax debt owed to the United States that has been delinquent for a period of over 180 days be turned over to the Department of the Treasury for collection. The Electronic Funds Transfer (EFT) provision of the DCIA mandates all recipients of Federal payment, receive their payments electronically, except for tax refunds.

The Department exceeded its FY 2009 performance goals for PPA (Figure 3-2), DCIA (Figure 3-3), and payments made by EFT (Figure 3-4).

FIGURE 3-2

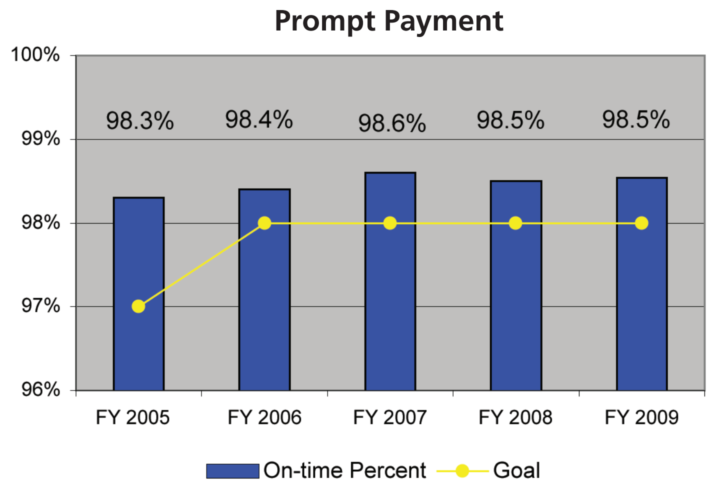


FIGURE 3-3

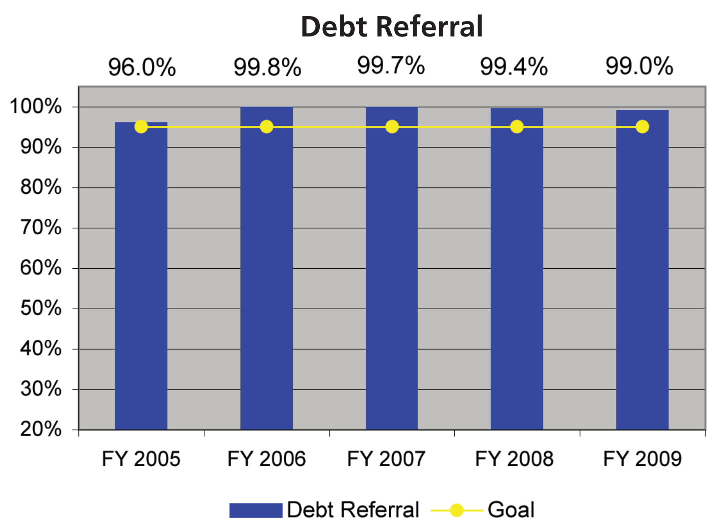
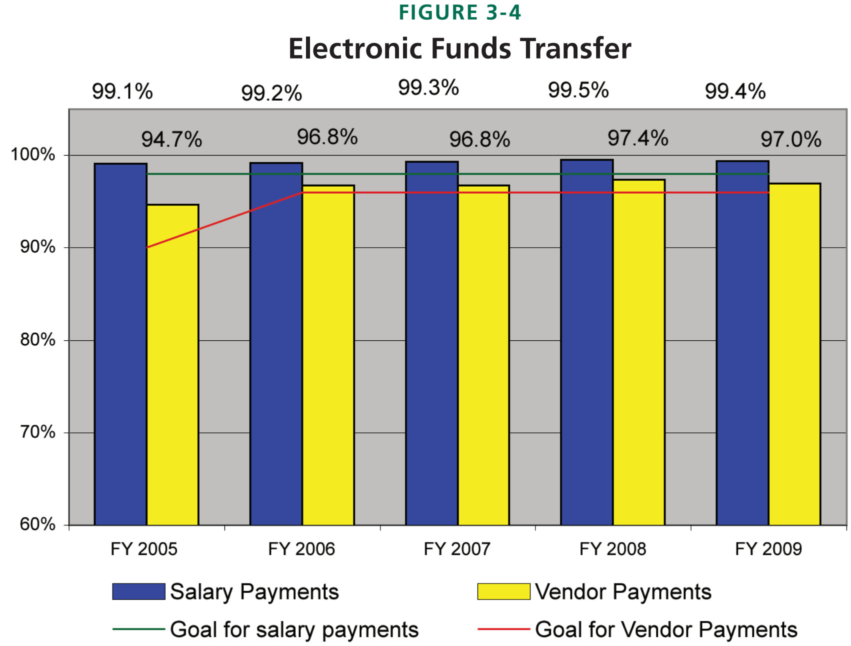
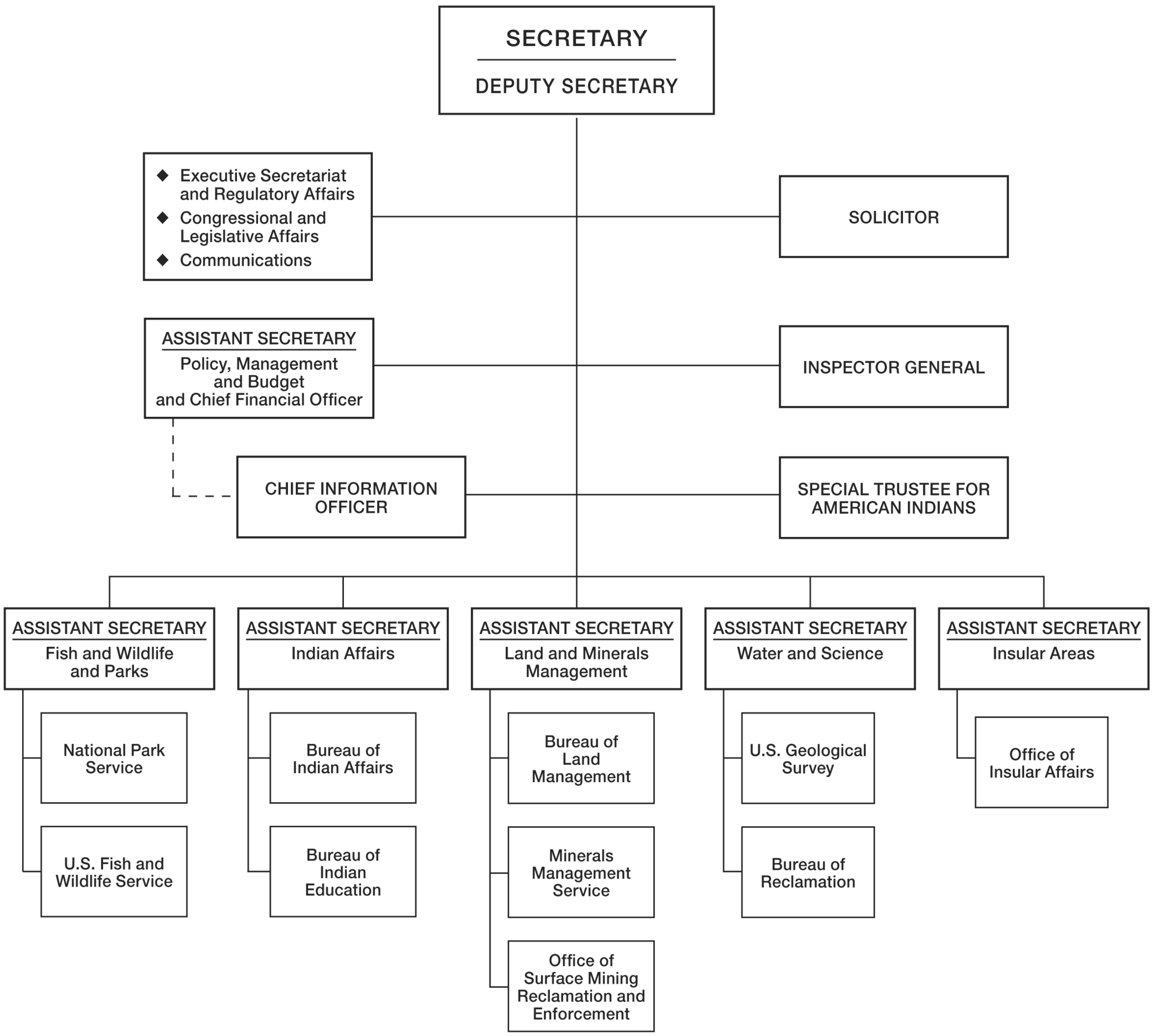


FIGURE 3-4



U.S. Department of the Interior



7/09

GLOSSARY OF ACRONYMS

AFR	Agency Financial Report
AML	Abandoned Mine Land
APD	Application for Permit to Drill
ARRA	American Reinvestment and Recovery Act of 2009
ASG	American Samoa Government
ASV	Accidental Severity Values
AYP	Adequate Yearly Progress
BIA	Bureau of Indian Education
BLM	Bureau of Land Management
BOM	Bureau of Mines
BOR	Bureau of Reclamation
BPA	Bonneville Power Administration
C&A	Certification and Accreditation
CAM	Compliance Asset Management
CBS	Collection and Billing System
CFO	Chief Financial Officer
COTS	Commercial Off-the-Shelf Software
CIP	Construction in Progress
CR	Continuing Resolution
CSRS	Civil Service Retirement System
DCIA	Debt Collection Improvement Act
DGoMB	Deep Gulf of Mexico Benthos
DO	Departmental Offices
DOE	Department of Energy
DOI	Department of the Interior
DOL	Department of Labor
EFT	Electronic Funds Transfer
EIRF	Environmental Improvement and Restoration Fund
ERAC	Executive Radio Advisory Committee
FACTS II	Federal Agencies Centralized Tribal Balance System II
FASAB	Federal Accounting Standards Advisory Board
FBMS	Financial and Business Management System
FCRA	Federal Credit Reform Act
FECA	Federal Employees Compensation Act
FEGLI	Federal Employees Group Life Insurance
FERS	Federal Employees Retirement System
FFB	Federal Financing Bank
FFMIA	Federal Financial Management Improvement Act
FISMA	Federal Information Security Management Act of 2002
FLPMA	Federal Land Policy and Management Act
FMFIA	Federal Managers' Financial Integrity Act
FMMS	Facility Maintenance Management System
FPA	Fire Program Analysis
FWS	U.S. Fish and Wildlife Service
FY	Fiscal Year
GAAP	Generally Accepted Accounting Principles
GAO	Government Accountability Office
GMRA	Government Management Reform Act
GPRA	Government Performance and Results Act
GSA	General Services Administration
HHS	Department of Health and Human Services
HPF	Historic Preservation Fund
HVAC	Heating, Ventilation and Air Conditioning

IA	Indian Affairs
IIM	Individual Indian Monies
IT	Information Technology
KPI	Key Performance Indicator
LCRBF	Lower Colorado River Basin Fund
LCRBD	Lower Colorado River Basin Development Fund
LWCF	Land and Water Conservation Fund
M&I	Municipal and Industrial
MD&A	Management's Discussion and Analysis
MMS	Minerals Management Service
MRM	Minerals Revenue Management
NAWCF	North American Wetlands Conservation Fund
NBC	National Business Center
NHPA	National Historic Preservation Act of 1966
NPS	National Park Service
NWR	National Wildlife Refuge
OCIO	Office of the Chief Information Officer
OCS	Oouter Continental Shelf
OIA	Office of Insular Affairs
OIG	Office of Inspector General
OMB	Office of Management and Budget
OPM	Office of Personnel Management
OS	Office of the Secretary
OSM	Office of Surface Mining Reclamation and Enforcement
OST	Office of the Special Trustee for American Indians
PFM	Office of Financial Management
PI/LSI	Possessory Interest or Leasehold Surrender Interest
PMA	President's Management Agenda
PMO	Project Management Office
POA&M	Plan of Actions and Milestones
PPA	Prompt Payment Act of 2002
PP&E	Property, Plant, and Equipment
RIK	Royalty-in-Kind
SAA	Single Audit Act of 1996
SBR	Statement of Budgetary Resources
SFFAS	Statement of Federal Financial Accounting Standard
SMCRA	Surface Mining Control and Reclamation Act
SNPLMF	Southern Nevada Public Land Management Fund
SPR	Strategic Petroleum Reserve
SY	School Year
USFS	U.S. Forest Service
USGS	U.S. Geological Survey
USSGL	U.S. Standard General Ledger
USPP	United States Park Police
WMD	Wetland Management District
WUI	Wildland Urban Interface